

**MINUTES OF THE JOINT EXECUTIVE APPROPRIATIONS
COMMITTEE MEETING
August 18, 2009 at 1:00 P. M.
Room 445, Capitol Building, State Capitol Complex**

Members Present: Rep. Ron Bigelow, Co-Chair
Sen. Lyle W. Hillyard, Co-Chair
Sen. Peter C. Knudson, Vice Chair
Rep. Bradley G. Last, Vice Chair
Rep. David Clark, Speaker
Rep. Brad L. Dee
Rep. Kevin S. Garn
Rep. James R. Gowans
Sen. Scott K. Jenkins
Sen. Patricia W. Jones
Sen. Sheldon L. Killpack
Rep. David Litvack
Rep. Rebecca D. Lockhart
Sen. Karen Mayne
Rep. Carol Spackman Moss
Sen. Luz Robles
Sen. Ross I. Romero
Rep. Jennifer M. Seelig
Sen. Michael G. Waddoups, President

Staff Present: Jonathan Ball, Legislative Fiscal Analyst
Steven Allred, Deputy Director
Greta Rodebush, Secretary

Speakers Present: Tenielle Young, Governor's Office of Planning and Budget
Danny Schoenfeld, Legislative Fiscal Analyst
Larry K. Shumway, Utah State Office of Education
Jonathan Ball, Legislative Fiscal Analyst
Gary Ricks, Legislative Fiscal Analyst
Mark Bleazard, Legislative Fiscal Analyst
John Njord, Department of Transportation
Carlos Bracerias, Department of Transportation
Rich Amon, Legislative Fiscal Analyst

Note: A copy of related materials, and an audio recording of the meeting can be found at www.le.utah.gov.

A list of visitors and a copy of handouts are filed with the committee minutes.

1. Call to Order - Approval of Minutes

Committee Co-Chair Bigelow called the meeting to order at 1:10 p.m.

MOTION: Co-Chair Hillyard moved to approve the minutes of June 16, 2009. The motion passed unanimously.

2. Federal Funds/ARRA/Non-Federal Grants Reports

Tenielle Young, Governor's Office of Planning and Budget, presented the Federal Funds/ARRA/Non-Federal Grants Reports through July 31, 2009. There were five new federal grants, one new ARRA grant, and three new non-federal grants requiring legislative action. There were six federal reapplications of existing grants requiring legislative action.

Ms. Young noted that the Governor's Office had approved six new federal grants, two new ARRA grants, and one new non-federal grant. The Governor's Office also approved fourteen federal reapplications of existing grants.

President Waddoups expressed concern about the amount of federal money flowing into the State tied to federal health programs. These programs may ultimately become the State's obligation once the funding runs out. Danny Schoenfeld, LFA, offered to prepare some information on this issue and make a short presentation for September's meeting.

Co-Chair Bigelow recognized Co-Chair Hillyard for a motion.

MOTION: Co-Chair Hillyard moved to approve five new federal grants, one new ARRA grant, three new non-federal grants, and six federal reapplications of existing grants requiring legislative action through July 31, 2009 listed in the Federal Funds/ARRA/Non-Federal Grants Reports. The motion passed unanimously.

Larry K. Shumway, State Superintendent of Public Instruction, discussed the "*Race to the Top*" Fund (R2T), a \$4.3 billion education reform program through the American Recovery and Reinvestment Act (ARRA). The U.S. Department of Education will award grants among ten to fifteen states through a competitive application process.

Mr. Shumway indicated that the Utah State Office of Education has considered applying for an award of at least \$300 million. He pointed out that there are significant strings attached to this funding. He also informed the committee that he would be sending a letter to legislators inviting them to participate in a joint discussion on issues related to this application.

Speaker Clark read a statement to the committee regarding recent budgetary concerns and the New Century Scholarship.

"Earlier today the Majority legislative leadership and Governor Herbert instructed the Utah Board of Regents to fully fund the New Century Scholarship.

The past week both sides of the aisle have provided constructive input in trying to come up with a solution. Legislative leadership will continue to work with the Governor and the Utah Board of

Regents between now and the legislative session to specify funding sources. We expect that the amount of the scholarship restoration will be a reallocation from within the Higher Education budget. The Board of Regents has agreed to notify qualified recipients, within 72 hours, that their scholarship will be fully funded."

Sen. Jones expressed appreciation for Speaker Clark's comments. She stated that the New Century Scholarship is a nonpartisan issue. She thanked President Waddoups and Sen. Valentine for their support in helping resolve this funding issue. The New Century Scholarship is just one of many examples of the value of government programs that directly affect peoples' lives.

Co-Chair Bigelow recognized Sen. Valentine and Rep. Holdaway, Co-Chairs of the Higher Education Appropriations Subcommittee, who worked on this issue.

3. 2009-2010 Appropriations Report

Jonathan Ball, LFA, gave a brief overview of the 2009-2010 Appropriations Report. Beginning with the FY 2009 Original Appropriation, the report reflects five rounds of budget balancing including the 2008 2nd Special Session (September 2008), 2009 General Session, and 2009 1st Special Session (May 2009).

The Executive Summary includes an appropriations overview; charts reflecting appropriations from General and Education Funds plus adjustments or "proxies" used to balance the budget by source and area of expenditure; revenue shortfalls and offsets; structural balance; schedules and tables summarizing legislative budget action for state government; and Rainy Day Fund status.

The Executive Summary is followed by a detailed chapter for each subcommittee listing by agency and line item what the impacts were from all of the budget balancing rounds. Legislators can use this information as a reference in making decisions for FY 2011.

Mr. Ball stated that Legislators utilized a combination of fiscal tools to close \$1.8 billion in revenue shortfalls. The budget was balanced with a mix of spending reductions (72%), one-time revenue sources (22%), modest revenue increases (4%) and various other sources (2%).

Mr. Ball informed the committee that the FY 2009-2010 Appropriations Report is published on the Internet at www.le.utah.gov. LFA will mail hard copies to each legislator.

4. FY 2009 State Employment Update

Gary Ricks, LFA, presented the state employment data for FY 2009. Information was provided by the Department of Human Resource Management (DHRM) and the Utah System of Higher Education. Written documentation, "Recent Reduction in Force and Other Pertinent State Government Employment Data, 2009 Interim" was provided behind TAB 4.

In FY 2009, 1,371 positions were eliminated, 435 positions among the state agencies "core" workforce, and 936 within higher education. Over the years, the "core" workforce has remained relatively stable. In

FY 2009, this workforce consisted of 17,331 employees which is comparable to years before FY 2005.

Included in the positions eliminated are Reductions in Force (RIFs) defined by DHRM as: "Abolishment of positions resulting in the termination of career service staff due to inadequate funds, a change of workload, or a lack of work." During the period of October 1, 2008 to June 30, 2009, state agencies reduced ("RIF'd") 69 employees and Higher Education reduced ("RIF'd") 223 employees for a total of 292 involuntary reductions.

Mr. Ricks concluded that less than a year ago, it was projected that there would be over 1,000 involuntary reductions. However, 292 were reported in FY 2009. Personnel savings have been achieved by attrition (eliminating vacant positions, not hiring to replace resignations and retirements). Lastly, one-time funds may be postponing further involuntary reductions into FY 2010 and 2011.

Co-Chair Bigelow stated that the employment figures need to be looked at somewhat subjectively. Employment data can change from week to week, and projections indicate that those numbers will be added to as time goes on. He also mentioned that the definitions of reduction in force (RIF), resignation, and retirement are not clear and vary slightly among agencies and departments.

Sen. Jones asked if we are calculating the decrease in services along with reductions in force. She suggested that citizen expectations may have to be addressed if services are going to be impacted.

Mr. Ricks responded that the fiscal analysts will take a look at state agencies and determine where some of these service issues may be surfacing.

Sen. Robles asked if the 435 positions eliminated included Department of Human Services employees who shifted to private contractors. Mr. Ball clarified that 30 employees within the Division of Services for People with Disabilities are now working as independent contractors. That number was included in the 435 positions eliminated.

Sen. Robles also asked if the 69 state agency RIF's were included in the 435 positions eliminated. Mr. Ball confirmed that they were.

Rep. Litvack requested employment data back to FY 2000 including data on the most recent economic downturn prior to the current one. He was interested in making a comparison of RIFs, retirements, and resignations.

Co-Chair Hillyard, referencing the "Retirements and Resignations" Chart on page 3, asked about the absence of data in Higher Education for FY 2005 through FY 2008. Mr. Ricks stated that LFA would work with Higher Education to secure that information.

Co-Chair Hillyard stated that it would be useful to have similar data comparing teachers and classified employees in Public Education.

Co-Chair Hillyard commented further about changing the paradigm on how services are delivered when reductions in force occur. He was interested in looking at agencies who have had to reduce employees and yet, found new ways to deliver services. Mr. Ricks responded that LFA will follow up on these requests.

Co-Chair Bigelow noted that there was some additional detail on higher education, "Personnel Reductions as a Result of Budget Cuts As of June 20 2009," on the last page under TAB 3.

Speaker Clark commented that the employment data may have not been impacted as much as has been suggested. He expressed an interest in knowing how state employment numbers reconcile with the \$1.8 billion budget reduction for the last two years.

Sen. Mayne voiced concern with employees shifting over to the private sector and subcontracting with the state to provide services for Medicaid recipients. Based on conversations with Department of Health and Human Services, it was her understanding that the number of subcontractors could go as high as 140. It was disconcerting to her that these advocates are giving advice to Medicaid clients without the liability umbrella of the State.

Co-Chair Bigelow stated that the committee will have the opportunity to hear from the individual agencies in upcoming meetings and will be able to query the departments with these types of concerns.

Rep. Seeling reiterated that accountability and quality of services play an important role in the delivery of services.

5. Transportation Funding Updates

Mark Bleazard, LFA, offered some opening remarks regarding transportation funding and the general highway bonding needs for FY 2010. He introduced John Njord, Executive Director, and Carlos Braceras, Deputy Director, Utah Department of Transportation (UDOT).

Mr. Njord reported on the bonding requirements for the Critical Highway Needs Program, I-15 in Utah County, Mountain View Corridor, and Southern Parkway. He also commented on highway projects funded through the American Recovery and Reinvestment Act (ARRA).

Mr. Braceras distributed a spreadsheet to the committee, "Utah Department of Transportation Bonding Summary."

Mr. Njord stated that in FY 2009, the Department issued its first bonds for the Critical Highway Needs Fund. In FY 2010, the Department will issue bonds for three programs: Critical Highway Needs Fund (CHNF), Transportation Investment Fund (TIF) and the County of the First Class, for \$905 million. He expects that there will be multiple bond issuances.

In FY 2011, the Department will bond for over \$1 billion depending on the cash flow and outlays needed to service these programs.

Sen. Killpack asked if UDOT intends to fully bond for \$1.2 billion, the amount authorized by the Legislature to fund the Critical Needs Highway Program. Mr. Njord responded that UDOT will not bond for the \$1.2 billion because it is not needed to service the entire program.

Mr. Njord went on to report that there are currently over 250 highway projects under contract valued at \$2.3 billion. Three consortiums of contractors are bidding on the I-15 Project in Utah County. UDOT will make its final selection in December, with construction scheduled to begin in the spring. The contractor for the Mountain View Corridor in Salt Lake County was hired last week. The \$700 million, 3-year project is a multiple-phased project that begins in spring as well. A new interchange has been built at milepost two near the Arizona border in conjunction with the Southern Parkway belt route around the St. George/Hurricane area. UDOT is also building a road that goes out to the new St. George airport. This road is scheduled for completion in conjunction with the opening of the airport.

Rep. Lockhart asked for an update on the "shovel ready" ARRA stimulus projects.

Mr. Njord stated that Utah received about \$200 million for stimulus projects. Just over \$60 million was given to local governments for projects administered through the Metropolitan Planning Organizations. The balance, \$149 million, went to the Utah Department of Transportation. UDOT has obligated ninety-five percent of this money for projects that are either under construction or will be under construction shortly. Utah is one of four states that are moving these projects along faster than anyone else. The stimulus money represents real work and real jobs.

To date, one hundred projects have been issued across the entire state in areas that are economically distressed. Most of this work is pavement and bridge rehabilitation. Mr. Njord stated that it is his goal to have the stimulus money spent by the end of the calendar year.

Rep. Lockhart asked about the possibility of receiving additional federal funds. Mr. Njord stated that Utah should be at the front of the line to receive any reallocations should they occur.

Mr. Njord mentioned that Utah is in a favorable position of being awarded some discretionary grant money that UDOT is applying for through the U.S. Department of Transportation.

6. Agency Plans for Implementing FY 2011 Base Budget Allocations - Capital Facilities and Government Operations Appropriations Subcommittee

Jonathan Ball, LFA, explained that in the 2009 General Session, the Legislature approved intent language requiring the Governor's Office of Planning and Budget to provide regular reports to the Executive Appropriations Committee throughout the 2009 interim detailing state agency plans for implementing FY 2011 base budget allocations defined by ongoing appropriations contained in FY 2010 appropriations acts.

Mr. Ball stated that the first of these regular reports will be heard today.

Mr. Ball called attention to the schedule behind TAB 6, "Budget Changes, FY 2009 Original - FY 2011 Base Budget, General and Education Fund plus Proxies Used to Balance the Budget by Areas of Expenditure." He pointed out that in FY 2010, the Legislature reduced discretionary budgets by 8 percent on average compared to the FY 2009 Original appropriation. In FY 2011, these budgets will be reduced by an additional 9 percent on average.

Following Mr. Ball's remarks, John Nixon, Executive Director, Governor's Office of Planning and Budget, addressed the committee. He stated that the Governor's Office will present an in-depth budget study review on how agencies are transitioning to meet FY 2011 base budget targets later this fall. The study will also be included in the Governor's budget recommendations that will be presented in December.

Mr. Nixon explained how the Governor's Office is approaching the FY 2011 budget and how they are working with the agencies to meet the FY 2010 targets. He stated that agencies have implemented most of the budget cuts and have gone the extra mile to include the advocacy community and other impacted parties as they are scaling back programs and reducing staff.

Mr. Nixon also stated that the Governor's Office will be working with LFA to get a more definitive number of positions lost based upon the differing definitions. They will also be looking at the definition of rehire or a hiring position as well.

Mr. Nixon stated that the Governor's Office is treating the FY 2011 base as the FY 2010 budget appropriated absent any one-time backfills. Any requests to replace a backfill will need to come into the Governor's Office as a request for additional funding and will be evaluated based on its merits along with any other funding requests that come in during the course of the year. These requests have been limited to four specific areas: federal mandates or federal match rate changes, case load growth for federal or state mandated programs, existing critical programs for which an imminent risk to public health and safety exists, and replacement of one-time funding for critical ongoing programs.

He stated that the agencies will be submitting along with their budgets next month, a detailed analysis of the cuts they have incorporated in the 2010 fiscal year as well as the impacts of the FY 2011 cuts.

Speaker Clark asked Mr. Nixon to clarify, from the Governor's standpoint, the FY 2011 base budget. Mr. Nixon stated that the Governor's starting point is the ongoing appropriated budget for FY 2010 and does not include any backfill monies. The Governor will then build upon this budget as revenues become available. He noted that in the budget guidelines, agencies were asked to submit one, three, and five percent budget reduction scenarios in case there needs to be further reallocations.

Rep. Bigelow commented that budget plans have not changed since the General Session. The FY 2011 base budget reflects a \$400 million reduction from the FY 2010 base appropriated. It is anticipated that an additional \$300 million will need to be addressed in conjunction with growth in student population Medicaid caseload, etc.

Rep. Bigelow expressed appreciation to the Executive Branch and all interested parties in their willingness to work together.

Following Mr. Nixon's presentation, Gary Ricks and Rich Amon, LFA, reported on the first budget area, agencies covered by the Capital Facilities and Government Operations Appropriations Subcommittee.

Gary Ricks, LFA, reported on the FY 2010 budget cuts that included ongoing cuts and one-time add backs for Administrative Services, Technology Services, Capitol Preservation Board, Human Resource Management, and Career Service Review Board. In addition to highlighting reduced FTEs, consolidated workloads, and reduced current expenses, Mr. Ricks mentioned three significant line items that received one-time funding in FY 2010: Technology Services ISF server consolidation, Technology Services Omnilink communications systems, and Capital Preservation Board contracted maintenance services.

Rich Amon, LFA, highlighted the Finance Mandated line item for Administrative Services, explaining reductions in Internal Service Fund (ISF) rate adjustments and DTS server consolidation with an add back for server consolidation one year delay. Mr. Amon stated that the Legislature approved the consolidation of all agency servers and data centers into one central state data center. DTS estimated a \$1.7 million savings to the General Fund. In order to allow the Department sufficient time to implement the consolidation, the Legislature removed the \$1.7 million ongoing General Fund and replaced it with one-time funds for FY 2010 only.

Rich Amon discussed three issues in the Capital Budget. In FY 2009 and FY 2010, the Legislature suspended a requirement to fund capital improvements at 1.1 percent (0.9 percent when an operating deficit exists) of the replacement value of state facilities. Unless the Legislature suspends this requirement for FY 2011, the Legislature will need an additional appropriation between \$31 and \$35 million to make the 1.1 percent threshold (\$15 to \$19 million with a 0.9 percent threshold).

The Legislature removed all ongoing funding from the Capital Development line item. Any new capital developments will need additional appropriations (either one-time funds to cash fund the projects or ongoing funding for the debt service of bonds).

While the Legislature did not authorize bonding for the \$46 million cut from the USTAR appropriation, it did give authorization to proceed with the building projects even though contracts will exceed appropriations (SJR 22). This implies that the Legislature will authorize the \$46 million of bonding in FY 2011. This has been covered in the debt service.

Mr. Amon also reported on the Debt Service budget. Debt service appropriations are currently on track to meet debt service obligations for FY 2011. Several bond authorizations have yet to be issued, which may change the debt service requirements depending on the structure of and interest rates received on the new bonds.

Speaker Clark asked if the new debt service for FY 2011 accounts for bonds that have been paid off. Mr. Amon stated that the new debt service takes into account paid off bonds as well as potential new bonds including the \$115 million of general obligation bonds issued in the 2009 General Session for buildings.

7. Fiscal Notes on Substitutes and Amendments

Co-Chair Bigelow stated that Agenda Item 7 will be postponed until next month.

8. Other Business

Co-Chair Bigelow noted the Annual Report from Rocky Mountain Center of Occupational and Environmental Health, "Assessment Offset for Donations Promoting Occupational Health and Safety," and dated July 29, 2009, behind Tab 8.

Co-Chair Bigelow recognized Co-Chair Hillyard for a motion.

MOTION: Co-Chair Hillyard moved to adjourn. The motion passed unanimously.

Co-Chair Bigelow adjourned the meeting at 3:00 p.m.